HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Windsor CMA

CANADA MORTGAGE AND HOUSING CORPORATION

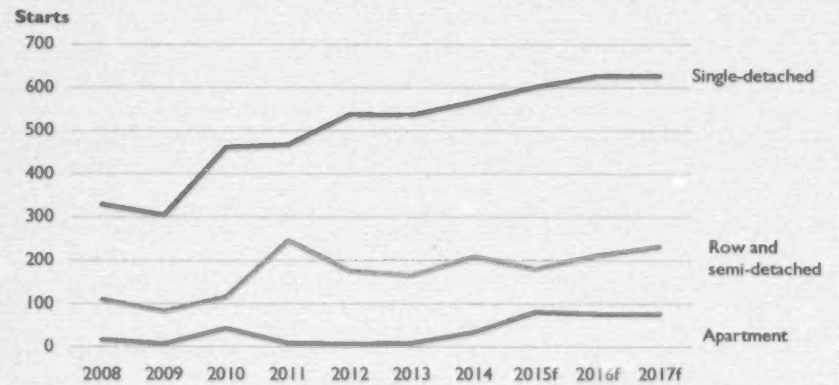
Date Released: Fall 2015

Highlights

- Total housing starts will increase six per cent to 910 starts in 2016 and will grow again in 2017.
- MLS® sales will increase one and a half per cent to 6,000 sales in 2016 and be higher in 2017.
- The average vacancy rate will decrease to 3.8 per cent in 2016 and decrease again in 2017.

Figure 1

Higher Single, Semi-detached and Row Starts in 2016



Source: CMHC Starts and Completions Survey, f = forecast

Forecasts and historical data included in this document reflect information available as of September 29, 2015.

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New Home Market: Greater Household Formation Leads to Higher Starts in 2016

Greater household formation will lead to higher total housing starts in Windsor in 2016. Improved labour market conditions will cause a larger percentage of Windsor's growing number of 25 to 34 year olds to leave the parental home to form their own households. Windsor is on pace to have its greatest job growth since the 2008 recession in 2015. A second consecutive year of job growth is forecast for Windsor in 2016. Greater growth in households headed by 25 to 34 years olds will cause what is already a seller's market for resale homes to have an even greater shortage of listings relative to demand. Builders will respond to tighter resale market conditions next year by increasing housing starts. Total housing starts will be higher in 2017, as another year of job growth will lead to greater household formation than in 2016.

Greater growth in households headed by 25 to 34 years olds will cause the resale market under $300,000 to tighten the most next year. As a result, the greatest growth in housing starts in 2016 will be new homes selling under $300,000. Most households headed by 25 to 34 year olds are not expected to purchase a home for greater than $300,000, as the minimum income to qualify for a mortgage with a 5 to 20 per cent down payment will range from approximately $50,000 to $65,000 in 2016.[1]

Greatest Growth in Row/ Semi-detached Starts

Pre-construction prices for new row and semi-detached homes are predominantly under $300,000 in Windsor. Less than a third of new single-detached homes were purchased for less than $300,000 in the first half of 2015. Therefore, growth in single-detached starts is expected to be milder than growth in row home and semi-detached starts. Rising carrying costs, due to price growth and mortgage rates starting to edge higher in late 2016, will stabilize the resale market for more expensive homes in 2017. As a result, single-detached starts are not expected to increase in 2017.

Greater growth in households headed by persons aged 55 years and older will also support growth in row and semi-detached starts in 2016. The 2011 Census showed that the majority of 0 to 5 year old row and semi-detached homes in Windsor at that time were owned by households headed by persons aged 55 years and older. Greater price growth in the resale market next year will cause a higher number of these households to list their homes for sale and purchase a new row or semi-detached home. Growth in row starts next year is also supported by a very low number of completed and unsold new row homes heading into the fourth quarter of 2015. Higher semi-detached and row home starts are forecast for 2017, due to a tighter market for less expensive homes and greater growth in households headed by a person 55 years of age and older.

After posting the highest apartment starts in nine years in 2015, apartment starts are expected to be stable in 2016. The majority of apartment starts are expected to be condominiums, also supported by greater growth in households headed by persons aged 55 years and older. Few rental housing starts will occur in 2016. While the rental vacancy rate has been decreasing in Windsor, it still remained in excess of four per cent in April 2015, indicating ample choice still exists for renters.

Existing Home Market: Greater Demand Due to Job Growth and Affordable Carrying Costs

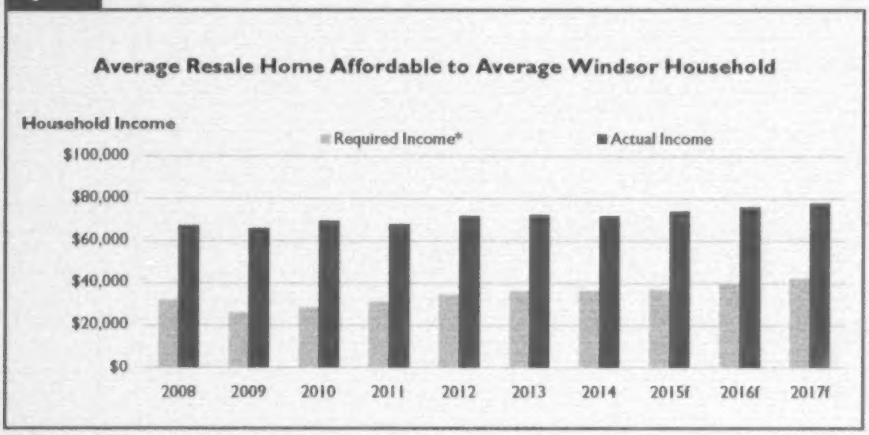
MLS® sales in Windsor are on pace to grow to their highest level since 2004 this year and will grow again in 2016. Higher MLS® sales will be supported by job growth and affordable carrying costs. The average resale home in Windsor will be slightly more expensive to its average household in 2016, due to greater growth in carrying costs than average weekly earnings. However, demand will be relatively unaffected, as the income required to qualify for a mortgage based on the average MLS® price will still be much lower than the projected income of the average household in Windsor. Carrying costs will be higher due to approximately 3.5 per cent growth in the average MLS® sale price and mortgage rates edging higher in late 2016. Growth in average weekly earnings will not keep pace but be similar to the strong growth of three per cent that is expected in 2015.

[1] Based on the 2016 forecast five year benchmark mortgage rate, 25 year amortization and 32 per cent gross debt service ratio.

Figure 2

Source: CMHC, adapted from CREA (MLS®)
MLS® is a registered trademark of the Canadian Real Estate Association

Figure 3



Source: CMHC, adapted from Statistics Canada and CREA
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the five-year mortgage benchmark rate and the longest available amortization.

Job growth and affordable carrying costs will also lead to higher MLS® sales in 2017. Carrying costs for the average resale home will just grow slightly more than average weekly earnings, remaining well below projected average household income in Windsor. Average MLS® sale price growth of three per cent and slowly rising mortgage rates during 2017 will result in greater growth in carrying costs than in 2016.

Greater Growth in Average MLS® Sale Price in 2016

What is already a seller's market will get marginally tighter in 2016, causing greater growth in the average MLS® sale price next year. Existing home sales are expected to grow slightly more than new listings. New listings will reverse course in Windsor and grow in 2016, after being stable or decreasing in all but one year since 2007. Improved labour market conditions and another year of price growth will encourage a higher number of homeowners to list their homes for sale next year. Price growth will be steady in the first three quarters of 2016, due to slightly greater growth in sales than in new listings. The sales-to-new listings ratio will be at its lowest level of 2016 in the fourth quarter, as slightly higher mortgage rates will lead to slower growth in MLS® sales. The overall resale market will favour sellers throughout 2016, with the greatest supply-demand imbalance being for lower priced homes. Less growth in the average MLS® sale price is expected in 2017, as new listings will grow more than MLS® sales. The resale market will still favour sellers in 2017.

Migration is expected to be less supportive of housing demand in 2016 than in 2015. The primary source of positive net migration in Windsor has been people from other countries. Historically in Windsor, changes in net international migration three years ago have had a significant effect on MLS® sales in the current year. A decrease in international migration in Windsor from 2012 to 2013 will constrain growth in MLS® sales next year. Greater net migration from other parts of Ontario and reduced outflows to other provinces, both of which tend to have an immediate effect on homeownership markets, will support higher MLS® sales in 2016. A smaller outflow of people to other provinces will be due to a weaker labour market in Western Canada and strengthening labour market in Windsor. Intra-provincial net migration will also increase due to a lower unemployment rate in Windsor. Migration will be as supportive of resale home demand in 2017 as in 2016.

Rental Market: Vacancy Rate to Decrease in 2016 and 2017

The vacancy rate for purpose-built rental apartments in structures with three units or more will decrease for the seventh consecutive year in Windsor to 3.8 per cent in 2016. The number of apartments in the rental universe will be relatively unchanged, as just a small number of new rental apartments are expected to be completed next year. The number of occupied apartments, the measure for rental demand, will be greater than in 2015. Average rent for a two-bedroom apartment will increase due to a tighter rental market and a higher Ontario Rent Control Guideline than in 2015.

Improved labour market conditions, a higher number of student renters and a smaller percentage of renters transitioning into homeownership will lead to greater rental demand in 2016. Job growth will lead to greater growth in households headed by 25-34 years old, the age group with the second highest historical propensity to rent in Windsor. A roughly equal proportion of 25-34 year olds that move out of the parental home in 2016 are expected to rent versus buy a home. By moving and expanding some of its faculties in Downtown Windsor, the student population at the University of Windsor is expected to grow. The carrying cost for the average MLS® sale will grow more than average rent for a two-bedroom apartment in Windsor next year, leading to a higher cost to substitute from rental to homeownership. Stable international migration is expected to generate a similar number of new rental households as in 2015.

The vacancy rate will also decrease in 2017, due to relatively no growth in the number of apartments in the rental universe and greater rental demand. Growth in rental households will be similar to 2016. Average rent for a two-bedroom apartment will increase due to a tighter rental market.

Economic Trends: Unemployment Rate to Decrease in 2016 and 2017

The unemployment rate will decrease to 8.4 per cent in 2016 due to greater growth in jobs than in the labour force. A larger decrease in the Canadian to US dollar exchange rate this year compared to 2014 contributed to greater job growth in 2015 in Windsor. The average exchange rate in 2016 is forecast to be slightly lower. Industries in Windsor's goods-producing sector will continue to benefit from the Canadian dollar to US dollar exchange rate remaining below $0.80. The travel, tourism and hospitality industry will also benefit from a higher number of US residents crossing the border to capitalize on their increase in purchasing power.

Job growth will also be supported by growth in motor vehicle sales, both in Ontario and the US. Increased spending on motor vehicles will be the result of improved labour market conditions in both regions in 2016, including greater wage growth. Jobs in the manufacturing of motor vehicles and motor vehicle parts combined make up the largest share of manufacturing employment in Windsor.

In 2017, the unemployment rate is expected to decrease to 8.2 per cent, again due to greater growth in jobs than in the labour force. Job growth will be slightly less in 2017, as the Canadian to US dollar exchange rate is expected to stabilize. Should the price of oil rise faster than anticipated the Canadian to US dollar exchange rate would increase, leading to weaker job growth than forecast for Windsor.

Mortgage Rate Outlook: Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Mortgage rates		
1 Year	Q3 2015	2.90
	Change from Q3 2014	-0.24
	2014	3.14
	2015 (F)	2.60 to 3.30
	2016 (F)	3.00 to 3.80
	2017 (F)	3.90 to 4.80
5 Year	Q3 2015	4.65
	Change from Q3 2014	-0.14
	2014	4.88
	2015 (F)	4.10 to 5.20
	2016 (F)	4.70 to 6.00
	2017 (F)	5.10 to 6.50

Source: Bank of Canada, CMHC Forecast

NOTE: Mortgage rate forecast is based on Q3 2015 data

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	Job growth in 2016 and 2017 will lead to greater housing demand in both years.
Household Formation	Improved labour market conditions will lead to greater household formation, particularly among the 25 to 34 year old population.
Resale Market	Resale markets are expected to favour the seller, with price growth of 3.4 per cent in 2016 and 3.0 per cent in 2017. A greater shortage of listings relative to demand in the resale market will lead to higher housing starts.

Forecast risks

This outlook is subject to some risks, including:

Upside risks

- Stronger-than-expected private domestic demand in the United States

Downside risks

- A higher than forecast Canadian to US dollar exchange rate will slow growth in demand for Canadian manufactured exports and consequently slow employment growth in Windsor.
- A broader slowdown in the economic growth of China will negatively affect Canada through weaker demand for Canadian exports as well as a downward pressure put on commodity prices
- While a soft landing in the housing market remains the most likely scenario, near record-high house prices and debt levels relative to income leave households vulnerable to a potential correction. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on the economy.

Forecast Summary Windsor CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	536	535	566	600	6.0	625	4.2	625	0.0
Multiples	181	173	240	260	8.3	285	9.6	305	7.0
Semi-Detached	68	44	84	80	-4.8	85	6.3	90	5.9
Row/Townhouse	107	121	123	100	-18.7	125	25.0	140	12.0
Apartments	6	8	33	80	142.4	75	-6.3	75	0.0
Starts - Total	717	708	806	860	6.7	910	5.8	930	2.2
Average Price ($):									
Single-Detached	330,396	330,960	361,715	400,000	10.6	412,500	3.1	425,000	3.0
Median Price ($):									
Single-Detached	289,403	306,084	339,500	360,000	6.0	375,000	4.2	390,000	4.0
New Housing Price Index (% chg.)	2.0	1.0	1.6	0.5	-	1.0	-	1.3	-
Resale Market									
MLS® Sales	5,082	5,341	5,332	5,900	10.7	6,000	1.7	6,050	0.8
MLS® New Listings	9,380	9,395	9,079	9,100	0.2	9,225	1.4	9,400	1.9
MLS® Average Price ($)	172,047	179,820	187,283	192,500	2.8	199,000	3.4	205,000	3.0
Rental Market									
October Vacancy Rate (%)	7.3	5.9	4.3	4.1	-0.2	3.8	-0.3	3.6	-0.2
Two-bedroom Average Rent (October) ($)	778	788	798	825	3.4	840	1.8	850	1.2
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	153,300	154,800	155,200	163,200	5.2	166,800	2.2	169,500	1.6
Employment Growth (%)	3.7	1.0	0.3	5.2	-	2.2	-	1.6	-
Unemployment rate (%)	9.7	8.9	9.0	8.7	-	8.4	-	8.2	-
Net Migration	1,788	976	743	1,500	101.9	1,750	16.7	2,000	14.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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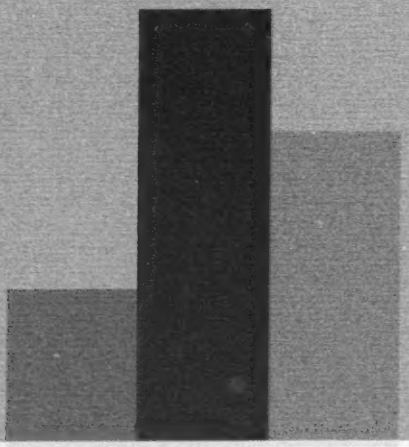

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